

STATEMENT OF GOVERNOR FRANK KEATING,
PRESIDENT OF THE AMERICAN COUNCIL OF LIFE INSURERS
BEFORE THE U.S. HOUSE OF REPRESENTATIVES
FINANCIAL SERVICES SUBCOMMITTEE ON CAPITAL MARKETS,
INSURANCE, AND GOVERNMENT SPONSORED ENTERPRISES
REGARDING
“G.I. FINANCES: PROTECTING THOSE WHO PROTECT US”

9 September 2004

Good morning, Mr. Chairman and members of the Subcommittee. I am Frank Keating, President of the American Council of Life Insurers. I much appreciate the opportunity to appear before you today to discuss how best to address unscrupulous sales of financial services, including insurance, to our men and women in the military service. You are to be congratulated on conducting this expeditious hearing. We at the ACLI are glad that the revelations of this summer have finally opened communications among those whose responsibility it is to solve the reported problems. For more than a year the ACLI has been aware of allegations of misbehavior. We have sought attention for them at the highest administrative levels. We had ideas for solutions to share with you today. We believed we had achieved a breakthrough earlier this year when we were able to sit down with representatives of the U.S. Government Accountability Office to help them plan their investigation into the accusations leveled by all sides. We encouraged the GAO to dig deep beneath its express mandate to get to the bottom of things. But it was the stories published by *The New York Times* in July that rocked everyone out of complacency and into remedial action. It is about time.

The telling thing about the newspaper's stories is that the news was old news. Many of the same allegations involving the same companies were reported four years ago in the Cuthbert Report, which is the unofficial name of the official Defense Department investigation into "Insurance Solicitation Practices on Department of Defense Installations".¹ While that report itself is controversial, it was clear long before it was

¹ Final Report to the Deputy Under Secretary of Defense (Program Integration), May 15, 2000

published that something was amiss in the supervision of insurance sales to military personnel. It should have been clear that alleged insurance problems required something of state insurance regulators as well as Defense officials. Our military mobilization since September 11 accelerated personal financial planning for our newly enlisted, accelerated sales of insurance, and perhaps accelerated incidents of coercive selling. But it did not accelerate communications between industry and Defense officials and state insurance officials – until now.

The ACLI and the National Association of Insurance and Financial Advisors (NAIFA) have shared with you for this hearing a dozen *Best Practices for Military Insurance Sales and Their Functional Regulation*. Our recommendations are divided into three areas. The first area addresses military installation market conduct by insurers and insurance agents. The second area recommends improved, standardized financial literacy opportunities for our servicemen and women. The third area recommends improvements in regulatory supervision of the military market for insurance sales. Thus we offer suggestions for improvement for both industry and regulators. We have more ideas to offer and we are actively soliciting suggestions from our member companies and agents. We want to assure that our military servicemen and women have the education, information, safeguards and independent sources of advice necessary for their individual needs. No industry can endanger its fundamental enterprise by tolerating misconduct in its core activities. We surely do not want our many good companies and agents unfairly tarred by a brush intended for a few. That is why ACLI is here today and anxious to help you sort

out the regulation of military sales of life insurance. We are convinced that the reason these issues continue to come up is because of the lack of clarity over who has the authority to oversee such sales and the absence of clear procedures to ensure the highest standards for dealing with men and women in uniform.

I might take a moment now to address remedial legislation drafted by Rep. Max Burns of Georgia. We applaud Congressman Burns for his authorship of the bill. At the heart of it is the genuine solution to many of the problems reported in the press—state regulation. That solution involves the realization of genuinely functional regulation – in both the technical and common sense of the term. We generally support the bill, although there are a few ancillary provisions in the bill to which I would like to suggest improvements.

First, the bill intends, we believe, to prohibit a particular investment product known as contractual mutual funds. As this is not a life insurance product, ACLI has no opinion about the pros or cons of such investments. However, the description of the product in the legislation goes far beyond contractual mutual funds to prohibit all kinds of insurance and annuities that have a variable element in them. ACLI has communicated with the Committee's staff on how to refine the technical description in the bill to the controversial product under your review.

My second observation is that the notion of asking 50 state insurance regulators to implement *new* standards to protect military personnel from insurance sales misconduct is unnecessary and probably unwanted by all the regulators involved. It has been the

absence of any kind of functional regulation of insurance sales on military installations that has created cracks through which misbehavior has reportedly taken root. Further, it is in the complete absence of effective enforcement of all relevant rules that has caused some of our soldiers to become victims of scams.

Fifty new state rules in addition to existing rules will *not* better protect our servicemen and women if neither the states nor the Defense Department can enforce any rule. The military services are a unique environment: It is populated by highly mobile individuals who have special needs and a healthy respect for those in authority or who otherwise provide guidance. The functional regulation of insurance by the states must be reconciled with the functional regulation of our military personnel by the Defense Department.

ACLI believes that the balance can be achieved by:

1. Centralizing financial services information of all military services within a particular command in the Defense Department; and
2. Looking to that centralized defense command to serve as the liaison and coordinate financial service sales supervision, handle complaints, and provide regulatory assistance with the financial service functional regulators.

Under this approach, an infraction by a sales agent or company on a military installation is not an isolated incident receiving an arbitrary evaluation. Rather it becomes an incident reported to multiple regulators and multiple installation commanders; it is subjected to fair and certain adjudication; and it could result in license revocation or penalties that

sting. The cracks in the system become sealed and misbehavior is rooted out, not to find fertile ground on another installation or in another state or foreign country.

Thank you, again, for allowing me to address you on these important topics and ideas. I assure you that the members of the American Council of Life Insurers are eager to help you address effectively the problems now under investigation by the GAO. We very much believe we can be part of the solution, and that our recommended best practices provide a path to success.

Respectfully submitted,

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Attachment:

Best Practices for Military Insurance Sales and Their Functional Regulation Proposed by the American Council of Life Insurers (ACLI) and the National Association of Insurance and Financial Advisors (NAIFA)(9 September 2004)